

# Foreclosure Related Sales in Today's Market



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## Is it ever appropriate to use foreclosure related sales in ratio analysis?

- When the number of foreclosure-related sales is **substantial and significantly** affects the market of a particular class or group of properties, assessing officials must determine whether these sales need to be considered for modeling, valuation, or sales ratio analysis.
- This process must be subject to mass appraisal and assessment guidelines established by the *Uniform Standards of Professional Appraisal Practice* (USPAP; Appraisal Foundation, updated annually) and to rules and regulations established by state and provincial legislation.

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Any Sale – “including foreclosure-related sales” to be used for modeling, valuation, or ratio studies, must meet the market value test

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## Market Value Test

- The buyer and seller are typically motivated.
- Both parties are well informed or well advised and acting in what is considered to be their best interest.
- A reasonable time is allowed for exposure in the open market.
- Payment is made in terms of cash or terms of financial arrangement comparable thereto.
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

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## The sales verification process determines whether a foreclosure-related sale meets the market value test

- Eliminate sales that should be automatically eliminated from consideration.
  - Sales involving government agencies and public utilities.
  - Sales involving financial institutions.
  - Sales between relatives or corporate affiliates.
  - Sales settling an estate.
  - Forced sales.
  - Sales of doubtful title.
- Gather specific comprehensive data concerning the sale from the buyer, lender, code/law enforcement etc...

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## The sales verification process determines whether a foreclosure-related sale meets the market value test

- Verify Physical Condition – it should be comparable to or the same as the condition it was on tax date and to surrounding properties.
- Verify Time on Market – Property should be on the market long enough to be exposed to all market participants.
- Verify Number of foreclosure-related sales in the market area – Does the principal of substitution apply to the sale?

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**For a foreclosure-related sale to be acceptable, the verification process must be documented**

- What was the total mortgage or loan balance?
- What was the asking price?
- What was the sale price?
- Was personal property involved, and if so, what was it and what was its value?
- Was an independent appraisal performed, and what was the value?

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**For a foreclosure-related sale to be acceptable, the verification process must be documented**

- Was there any indication of fraud?
- How was the property marketed (i.e., listed with real estate agency, word-of-mouth, news paper, for-sale signs, Internet, auction, and so on)?
- How long was the property exposed to the open market?
- Source code must be assigned.
- A validity decision code must be assigned.

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## Summary/Conclusion

- The Market determines if and when it is appropriate to use foreclosure – related sales.
- All sales must meet the Market Value Test.
- A sales verification process is required to determine whether a sale meets the Market Value Test.

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## Sources / Publications

- A Guide to Foreclosure – Related Sales and Verification Procedures
- Standard on Verification and Adjustment of Sales
- Standard on Ratio Studies

[www.IAAO.org](http://www.IAAO.org)

under Library and Resources tab

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